

[SYLLABI/SYNOPSIS](#)

## THIRD DIVISION

**[G.R. No. 128721. March 9, 1999]****CRISMINA GARMENTS, INC., *petitioner*, vs. COURT OF APPEAL AND NORMA SIAPNO, *respondents*.****DECISION****PANGANIBAN, J.:**

Interest shall be computed in accordance with the stipulation of the parties. In the absence of such agreement, the rate shall be twelve percent (12%) per annum when the obligation arises out of a loan or a forbearance of money, goods or credits. In other cases, it shall be six percent (6%).

**The Case**

On May 5, 1997, Crismina Garments, Inc. filed a Petition for Review on Certiorari<sup>[1]</sup> assailing the December 28, 1995 Decision<sup>[2]</sup> and March 17, 1997 Resolution<sup>[3]</sup> of the Court of Appeals in CA-GR CV No. 28973. On September 24, 1997, this Court issued a minute Resolution<sup>[4]</sup> denying the petition for its failure to show any reversible error on the part of the Court of Appeals.

Petitioner then filed a Motion for Reconsideration,<sup>[5]</sup> arguing that the interest rate should be computed at 6 percent per annum as provided under Article 2209 of the Civil Code, not 12 percent per annum as prescribed under Circular No. 416 of the Central Bank of the Philippines. Acting on the Motion, the Court reinstated<sup>[6]</sup> the Petition, but only with respect to the issue of which interest rate should be applied.<sup>[7]</sup>

**The Facts**

As the facts of the case are no longer disputed, we are reproducing hereunder the findings of the appellate court:

During the period from February 1979 to April 1979, the [herein petitioner], which was engaged in the export of girls denim pants, contracted the services of the [respondent], the sole proprietress of the DWilmar Garments, for the sewing of 20,762 pieces of assorted girls[] denims supplied by the [petitioner] under Purchase Orders Nos. 1404, dated February 15, 1979, 0430 dated February 1, 1979, 1453 dated April 30, 1979. The [petitioner] was obliged to pay the [respondent], for her services, in the total amount of ₱76,410.00. The [respondent] sew[ed] the materials and delivered the same to the [petitioner] which acknowledged the same per Delivery Receipt Nos. 0030, dated February 9, 1979; 0032, dated February 15, 1979; 0033 dated February 21, 1979; 0034, dated February 24, 1979; 0036, dated February 20, 1979; 0038, dated March 11, 1979[;] 0039, dated March 24, 1979; 0040 dated March 27, 1979; 0041, dated March 29, 1979; 0044, dated Marc[h] 25, 1979; 0101 dated May 18, 1979[;] 0037, dated March 10, 1979 and 0042 dated March 10, 1979, in good order condition. At first, the [respondent] was told that the sewing of some of the pants w[as] defective. She offered to take delivery

of the defective pants. However, she was later told by [petitioner]s representative that the goods were already good. She was told to just return for her check of ₱76,410.00. However, the [petitioner] failed to pay her the aforesaid amount. This prompted her to hire the services of counsel who, on November 12, 1979, wrote a letter to the [petitioner] demanding payment of the aforesaid amount within ten (10) days from receipt thereof. On February 7, 1990, the [petitioner]s [v]ice-[p]resident-[c]omptroller, wrote a letter to [respondent]s counsel, averring, inter alia, that the pairs of jeans sewn by her, numbering 6,164 pairs, were defective and that she was liable to the [petitioner] for the amount of ₱49,925.51 which was the value of the damaged pairs of denim pants and demanded refund of the aforesaid amount.

On January 8, 1981, the [respondent] filed her complaint against the [petitioner] with the [trial court] for the collection of the principal amount of ₱76,410.00. x x x

x x x x x x x x

After due proceedings, the [trial court] rendered judgment, on February 28, 1989, in favor of the [respondent] against the [petitioner], the dispositive portion of which reads as follows:

WHEREFORE, judgment is hereby rendered in favor of the plaintiff and against the defendant ordering the latter to pay the former:

- (1) The sum of ₱76,140.00 with interest thereon at 12% per annum, to be counted from the filing of this complaint on January 8, 1981, until fully paid;
- (2) The sum of ₱5,000 as attorney[]s fees; and
- (3) The costs of this suit;
- (4) Defendants counterclaim is hereby dismissed.<sup>[8]</sup>

The Court of Appeals (CA) affirmed the trial courts ruling, except for the award of attorneys fees which was deleted.<sup>[9]</sup> Subsequently, the CA denied the Motion for Reconsideration.<sup>[10]</sup>

Hence, this recourse to this Court.<sup>[11]</sup>

### Sole Issue

In light of the Courts Resolution dated April 27, 1998, petitioner submits for our consideration this sole issue:

Whether or not it is proper to impose interest at the rate of twelve percent (12%) per annum for an obligation that does not involve a loan or forbearance of money in the absence of stipulation of the parties.<sup>[12]</sup>

### This Courts Ruling

We sustain petitioners contention that the interest rate should be computed at six percent (6%) per annum.

### Sole Issue: *Interest Rate*

The controversy revolves around petitioners payment of the price beyond the period prescribed in a contract for a piece of work. Article 1589 of the Civil Code provides that [t]he vendee [herein petitioner] shall owe interest for the period between the delivery of the thing and the payment of the price x x x should he be in

default, from the time of judicial or extrajudicial demand for the payment of the price. The only issue now is the applicable rate of interest for the late payment.

Because the case before us is an action for the enforcement of an obligation for payment of money arising from a contract for a piece of work,<sup>[13]</sup> petitioner submits that the interest rate should be six percent (6%), pursuant to Article 2209 of the Civil Code, which states:

If the obligation consists in the payment of money and the debtor incurs in delay, the indemnity for damages, there being no stipulation to the contrary, shall be the payment of the interest agreed upon, and in the absence of stipulation, the legal interest, which is **six per cent per annum**. (Emphasis supplied.)

On the other hand, private respondent maintains that the interest rate should be twelve percent (12%) per annum, in accordance with Central Bank (CB) Circular No. 416, which reads:

By virtue of the authority granted to it under Section 1 of Act No. 2655, as amended, otherwise known as the Usury Law, the Monetary Board, in its Resolution No. 1622 dated July 29, 1974, has prescribed that the rate of interest for the loan or forbearance of any money, goods or credits and the rate allowed in judgments, in the absence of express contract as to such rate of interest, shall be twelve per cent (12%) per annum. (Emphasis supplied.)

She argues that the circular applies, since the money sought to be recovered by her is in the form of forbearance.<sup>[14]</sup>

We agree with the petitioner. In *Reformina v. Tomol Jr.*,<sup>[15]</sup> this Court stressed that the interest rate under CB Circular No. 416 applies to (1) loans; (2) forbearance of money, goods or credits; or (3) a judgment involving a loan or forbearance of money, goods or credits. Cases beyond the scope of the said circular are governed by Article 2209 of the Civil Code,<sup>[16]</sup> which considers interest a form of indemnity for the delay in the performance of an obligation.<sup>[17]</sup>

In *Eastern Shipping Lines, Inc. v. Court of Appeals*,<sup>[18]</sup> the Court gave the following guidelines for the application of the proper interest rates:

I. When an obligation, regardless of its source, i.e., law, contracts, quasi-contracts, delicts or quasi-delicts is breached, the contravenor can be held liable for damages. The provisions under Title XVIII on Damages of the Civil Code govern in determining the measure of recoverable damages.

II. With regard particularly to an award of interest in the concept of actual and compensatory damages, the rate of interest, as well as the accrual thereof, is imposed, as follows:

1. When the obligation is breached, and it consists in the payment of a sum of money, i.e., a loan or forbearance of money, the interest due should be that which may have been stipulated in writing. Furthermore, the interest due shall itself earn legal interest from the time it is judicially demanded. In the absence of stipulation, the rate of interest shall be 12% per annum to be computed from default, i.e., from judicial or extrajudicial demand under and subject to the provisions of Article 1169 of the Civil Code.

2. When an obligation, not constituting a loan or forbearance of money, is breached, an interest on the amount of damages awarded may be imposed at the discretion of the court at the rate of 6% per annum. No interest, however, shall be adjudged on unliquidated claims or damages except when or until the demand can be established with reasonable certainty. Accordingly, where the demand is established with reasonable certainty, the interest shall begin to run from the time the claim is made judicially or extrajudicially (Art. 1169, Civil Code) but when such certainty cannot be so reasonably established at the time the demand is made, the interest shall begin to run only from the date the judgment of the court is made (at which time the quantification of damages may be deemed to have been reasonably ascertained). The actual base for the computation of legal interest shall, in any case, be xxx the amount finally adjudged.

3. When the judgment of the court awarding a sum of money becomes final and executory, the rate of legal interest, whether the case falls under paragraph 1 or paragraph 2, above, shall be 12% per annum from such finality until its satisfaction, this interim period being deemed to be by then an equivalent to a forbearance of credit.<sup>[19]</sup>

In *Keng Hua Paper Products Co., Inc. v. CA*,<sup>[20]</sup> we also ruled that the monetary award shall earn interest at twelve percent (12%) per annum from the date of the finality of the judgment until its satisfaction, regardless of whether or not the case involves a loan or forbearance of money. The interim period is deemed to be equivalent to a forbearance of credit.<sup>[21]</sup>

Because the amount due in this case arose from a contract for a piece of work, not from a loan or forbearance of money, the legal interest of six percent (6%) per annum should be applied. Furthermore, since the amount of the demand could be established with certainty when the Complaint was filed, the six percent (6%) interest should be computed from the filing of the said Complaint. But after the judgment becomes final and executory until the obligation is satisfied, the interest should be reckoned at twelve percent (12%) per year.

Private respondent maintains that the twelve percent (12%) interest should be imposed, because the obligation arose from a forbearance of money.<sup>[22]</sup> This is erroneous. In *Eastern Shipping*,<sup>[23]</sup> the Court observed that a forbearance in the context of the usury law is a contractual obligation of lender or creditor to refrain, during a given period of time, from requiring the borrower or debtor to repay a loan or debt then due and payable. Using this standard, the obligation in this case was obviously not a forbearance of money, goods or credit.

**WHEREFORE**, the appealed Decision is *MODIFIED*. The rate of interest shall be six percent (6%) per annum, computed from the time of the filing of the Complaint in the trial court until the finality of the judgment. If the adjudged principal and the interest (or any part thereof) remain unpaid thereafter, the interest rate shall be twelve percent (12%) per annum computed from the time the judgment becomes final and executory until it is fully satisfied. No pronouncement as to costs.

**SO ORDERED.**

*Romero, (Chairman), Vitug, Purisima, and Gonzaga-Reyes, JJ., concur.*

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<sup>[1]</sup> *Rollo*, pp. 7-21.

<sup>[2]</sup> Penned by Justice Romeo J. Callejo Sr.; with the concurrence of J. Antonio M. Martinez, Division chairman (now a retired member of this Court), and Pacita Caizares-Nye, member.

<sup>[3]</sup> Also penned by Justice Callejo, Sr. with *JJ.* Antonio M. Martinez, Division chairman, and Ruben T. Reyes, member, both concurring.

<sup>[4]</sup> *Rollo*, pp. 104-105.

<sup>[5]</sup> *Ibid.*, pp. 106-112.

<sup>[6]</sup> Resolution dated April 27, 1998; *rollo*, p. 118.

<sup>[7]</sup> *Rollo*, pp. 140-141.

<sup>[8]</sup> CA Decision, pp. 1-4; *rollo*, pp. 25-28 (citations omitted)

<sup>[9]</sup> *Ibid.*, p. 8; *rollo*, p. 31.

<sup>[10]</sup> *Rollo*, p. 33.

<sup>[11]</sup> The case was deemed submitted for resolution on December 17, 1998, when this Court received private respondents Memorandum.

[\[12\]](#) Petitioners Memorandum, p. 2; *rollo*, p. 160.

[\[13\]](#) *Ibid.*, p. 3; *rollo*, p. 161.

[\[14\]](#) Memorandum for Private Respondent, p. 8; *rollo*, p. 175.

[\[15\]](#) 139 SCRA 260, October 11, 1985, per Cuevas, *J.* See also *Philippine Rabbit Bus Lines, Inc. v. Cruz*, 143 SCRA 158, 160-161, July 28, 1986; and *Pilipinas Bank v. Court of Appeals*, 225 SCRA 268, 275, August 12, 1993.

[\[16\]](#) *National Power Corporation v. Angas*, 208 SCRA 542, 546-549, May 8, 1992; *Tio Khe Chio v. Court of Appeals*, 202 SCRA 119, 123-124, September 30, 1991; *Philippine Virginia Tobacco Administration v. Tensuan*, 188 SCRA 628, 632-633, August 20, 1990; *Central Azucarera de Bais v. Court of Appeals*, 188 SCRA 328, 338-339, August 3, 1990; *Meridian Assurance Corporation v. Dayrit*, 184 SCRA 20, 23-24, April 3, 1990; and *GSIS v. Court of Appeals*, 145 SCRA 311, 321, October 30, 1986.

[\[17\]](#) *Castelo v. Court of Appeals*, 244 SCRA 180, 190, May 22, 1995 and *Pacific Mills, Inc. v. Court of Appeals*, 206 SCRA 317, 326, February 17, 1992.

[\[18\]](#) 234 SCRA 78, 95-97, July 12, 1994, per Vitug, *J.*

[\[19\]](#) *A.C. Enterprises, Inc. v. Construction Industry Arbitration Commission*, 244 SCRA 55, 57-58, May 9, 1995, per Quiason, *J.*

[\[20\]](#) GR No. 116863, February 12, 1998, per Panganiban, *J.*

[\[21\]](#) *Philippine National Bank v. Court of Appeals*, 263 SCRA 766, 770-772, October 30, 1996; and *Food Terminal, Inc. v. Court of Appeals*, 262 SCRA 339, 343-344, September 23, 1996.

[\[22\]](#) Private respondents Memorandum, p. 8; *rollo*, p. 175.

[\[23\]](#) *Supra*, at p. 94.